

MILFORD MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
AND FINDINGS

JUNE 30, 2005

David A. Maske
Certified Public Accountant
Spencer, Iowa 51301

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MILFORD MUNICIPAL UTILITIES
MILFORD, IOWA

JUNE 30, 2005

OFFICIALS
(Before January, 2005)

| NAME | TITLE | TERM EXPIRES |
|--------------|-------------------------|---------------------|
| Don Brinkley | Trustee (Chairman) | 12/31/2005 |
| James Studer | Trustee (Vice-Chairman) | 12/31/2007 |
| Keith Wurtz | Trustee | 12/31/2008 |
| Don Payne | Trustee | 12/31/2009 |
| Steve Feld | Trustee | 12/31/2006 |

OFFICIALS
(After January, 2005)

| | | |
|--------------|-------------------------|------------|
| Don Brinkley | Trustee (Chairman) | 12/31/2005 |
| James Studer | Trustee (Vice-Chairman) | 12/31/2007 |
| Keith Wurtz | Trustee | 12/31/2008 |
| Don Payne | Trustee | 12/31/2009 |
| Steve Feld | Trustee | 12/31/2006 |

| | |
|---------------|----------------------------------|
| Robert Sewell | General Manager |
| Joyce McCrea | Office Manager / Board Secretary |

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Milford Municipal Utilities
Milford, Iowa

I have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of the electric and water funds of the Milford Municipal Utilities as of June 30, 2005, and for the year then ended. These financial statements are the responsibility of the Utilities management. My responsibility is to express an opinion on these financial statements based on my audit.

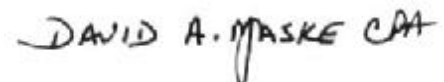
I conducted the audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly in all material respects the financial position of the electric and water funds of the Milford Municipal Utilities at June 30, 2005, and the results of those funds' operations and changes in cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated December 16, 2005, on my consideration of Milford Municipal Utilities' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with General Auditing Standards, and should be considered in accessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 4 and page 13 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion of the financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



DAVID A. MASKE
Certified Public Accountant

December 16, 2005
Spencer, Iowa

MILFORD MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

Milford Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Operating revenue of the Utility-wide activities increased 1.9%, or approximately \$54,000 from fiscal 2004 to fiscal 2005.
- Operating expenses increased 4.9%, or approximately \$137,000 in fiscal 2005 from fiscal 2004.
- The Utilities' total net assets increased 19.8%, or approximately \$1,985,000 from June 30, 2004 to June 30, 2005. Total liabilities increased 61.6% or approximately \$1,743,500. The increases were due primarily to Water Capital Notes issued.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Utilities' basic financial statements consist of balance sheets, statements of revenue, expenses and changes in retained earnings and statements of cash flows. The statements provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the Utilities' funds.

Basis of Accounting

The Utilities maintains its financial records on accrual basis and the financial statements of the Utilities are prepared on that basis.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better off or worse off as a result of the year's activities?" The Balance Sheets report information which helps answer this question.

The Balance Sheets presents the Utilities' net assets. Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Financial Statements

The required financial statements include a statement of revenue, expenses and changes in retained earnings.

UTILITY WIDE FINANCIAL ANALYSIS

A summary of the changes in retained earnings follows:

| | Year ended June 30, | |
|---------------------------------------|---------------------|---------------------|
| | 2005 | 2004 |
| Revenue: | | |
| Electric Utility | \$ 2,247,218 | \$ 2,100,339 |
| Water Utility | 662,892 | 756,067 |
| Interest | 41,715 | 28,828 |
| Other | 541 | 2,927 |
| Total Revenue | <u>\$ 2,952,366</u> | <u>\$ 2,888,161</u> |
| Expenses: | | |
| Electric Utility | \$ 2,170,108 | \$ 2,040,691 |
| Water Utility | 541,198 | 532,857 |
| Total Expenses | <u>\$ 2,711,306</u> | <u>\$ 2,573,548</u> |
| Net Income | \$ 241,060 | \$ 314,613 |
| Retained Earnings - Beginning of Year | <u>6,363,811</u> | <u>6,049,198</u> |
| Retained Earnings - End of Year | <u>\$ 6,604,871</u> | <u>\$ 6,363,811</u> |

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities exceeded its budget by \$4,936.

DEBT ADMINISTRATION

At June 30, 2005, the Utilities has \$3,961,325 in bonds and notes outstanding, compared to \$2,514,854 last year.

The Utilities redeemed \$203,529 in debt during the year and issued \$1,800,000 in Water Revenue Capital Loan notes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives.

BASIC FINANCIAL STATEMENTS

MILFORD MUNICIPAL UTILITIES
BALANCE SHEETS
JUNE 30, 2005

| | <u>ASSETS</u> | ELECTRIC FUND | WATER FUND |
|--|---|--------------------------|-----------------------|
| CURRENT ASSETS: | | | |
| Cash on Hand and in Bank ----- | \$ 72,257 | \$ 45,878 | |
| Cash in Savings and Certificates----- | 377,184 | 396,816 | |
| Consumers' Deposit Fund ----- | 44,409 | -0- | |
| Accounts Receivable ----- | 230,493 | 117,480 | |
| Inventory ----- | 301,386 | 35,342 | |
| Prepaid Expenses ----- | 29,469 | 14,780 | |
| Interest Receivable----- | 3,438 | 5,575 | |
| Other Receivables----- | 24,378 | 10,372 | |
| TOTAL CURRENT ASSETS | <u>\$ 1,083,014</u> | <u>\$ 626,243</u> | |
| FIXED ASSETS (NOTE 2): | | | |
| Fixed Assets ----- | \$ 9,747,527 | \$ 5,094,996 | |
| Accumulated Depreciation ----- | (5,034,348) | (1,957,995) | |
| TOTAL FIXED ASSETS | <u>\$ 4,713,179</u> | <u>\$ 3,137,001</u> | |
| OTHER ASSETS: | | | |
| Purchased Service Rights - At Cost ----- | \$ 13,470 | \$ -0- | |
| CTS - Acquisition Costs (Net) ----- | 48,897 | -0- | |
| Loan Costs (Net)----- | 24,267 | -0- | |
| TOTAL OTHER ASSETS | <u>\$ 86,634</u> | <u>\$ -0-</u> | |
| RESTRICTED ASSETS: | | | |
| Revenue Bond Sinking Fund ----- | \$ 92,265 | \$ 20,856 | |
| Principal & Interest Reserve ----- | 240,000 | 103,000 | |
| Improvement & Extension ----- | 39,632 | 106,555 | |
| CTS - Improvement Fund ----- | 185,836 | -0- | |
| Sewer Fund - District & City ----- | 21,269 | -0- | |
| Vehicle and Equipment Funds ----- | 75,127 | 18,944 | |
| Fuel Oil Fund ----- | 50,168 | -0- | |
| Community Development Fund ----- | 57,515 | -0- | |
| Loan Proceeds ----- | -0- | 1,415,000 | |
| TOTAL RESTRICTED FUNDS | <u>\$ 761,812</u> | <u>\$ 1,664,355</u> | |
| TOTAL ASSETS | <u>\$ 6,644,639</u> | <u>\$ 5,427,599</u> | |
| | <u>LIABILITIES AND FUND EQUITY</u> | | |
| CURRENT LIABILITIES: | | | |
| Accounts Payable ----- | \$ 199,084 | \$ 126,293 | |
| Accrued Employee Benefits ----- | 16,713 | 5,139 | |
| Accrued Interest ----- | 28,148 | 10,909 | |
| Accrued Payroll Taxes ----- | 766 | 382 | |
| Accrued Sales Tax ----- | 8,274 | 3,017 | |
| Accrued Property Tax ----- | 20,089 | -0- | |
| Accrued Wheeling ----- | 8,363 | -0- | |
| Consumers' Deposits ----- | 34,088 | -0- | |
| Current Portion Long-Term Debt ----- | 150,000 | 152,911 | |
| TOTAL CURRENT LIABILITIES | <u>\$ 465,525</u> | <u>\$ 298,651</u> | |
| LONG-TERM DEBT (NOTE 3): | | | |
| Revenue Capital Notes Payable----- | \$ 1,230,000 | \$ 2,881,325 | |
| LESS - Current Portion Above ----- | 150,000 | 152,911 | |
| TOTAL LONG-TERM DEBT | <u>\$ 1,080,000</u> | <u>\$ 2,728,414</u> | |
| TOTAL LIABILITIES | <u>\$ 1,545,525</u> | <u>\$ 3,027,065</u> | |
| FUND EQUITY: | | | |
| CONTRIBUTED CAPITAL ----- | \$ 1,355 | \$ 893,422 | |
| RETAINED EARNINGS: | | | |
| Restricted ----- | \$ 761,812 | \$ 249,355 | |
| Unrestricted----- | 4,335,947 | 1,257,757 | |
| TOTAL RETAINED EARNINGS | <u>\$ 5,097,759</u> | <u>\$ 1,507,112</u> | |
| TOTAL FUND EQUITY | <u>\$ 5,099,114</u> | <u>\$ 2,400,534</u> | |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 6,644,639</u> | <u>\$ 5,427,599</u> | |

See Accompanying Notes to Financial Statements .

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2005

| | ELECTRIC FUND | WATER FUND |
|-----------------------------------|--------------------------|-----------------------|
| REVENUE: | | |
| Utility Operating Income ----- | \$ 2,247,218 | \$ 662,892 |
| OPERATING EXPENSES: | | |
| Direct Costs ----- | \$ 1,270,253 | \$ 101,527 |
| Operating Expenses ----- | 263,630 | 135,493 |
| Administrative Expenses ----- | 636,225 | 304,178 |
| TOTAL OPERATING EXPENSES | <u>\$ 2,170,108</u> | <u>\$ 541,198</u> |
| OPERATING INCOME | <u>\$ 77,110</u> | <u>\$ 121,694</u> |
| NON-OPERATING INCOME: | | |
| Interest ----- | \$ 29,392 | \$ 12,323 |
| Other ----- | 541 | -0- |
| TOTAL NON-OPERATING INCOME | <u>\$ 29,933</u> | <u>\$ 12,323</u> |
| NET INCOME | <u>\$ 107,043</u> | <u>\$ 134,017</u> |
| RETAINED EARNINGS - JULY 1, 2004 | <u>4,990,716</u> | <u>1,373,095</u> |
| RETAINED EARNINGS - JUNE 30, 2005 | <u>\$ 5,097,759</u> | <u>\$ 1,507,112</u> |

See Accompanying Notes to Financial Statements.

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

| | ELECTRIC FUND | WATER FUND |
|---|--------------------------|-----------------------|
| CASH PROVIDED FROM (USED) FOR OPERATIONS: | | |
| Operating Income----- | \$ 77,110 | \$ 121,694 |
| Other Income----- | 541 | -0- |
| Adjustments for Non-Cash Items: | | |
| Depreciation & Amortization ----- | <u>277,122</u> | <u>124,111</u> |
| | <u>\$ 354,773</u> | <u>\$ 245,805</u> |
| ADJUSTMENTS FOR WORKING CAPITAL CHANGES: | | |
| Decrease (Increase) in Receivables----- | (26,069) | (22,272) |
| Decrease (Increase) in Inventory----- | 4,108 | 1,064 |
| Decrease (Increase) in Prepaid Expenses----- | 1,064 | (1,486) |
| Increase (Decrease) in Accounts Payable ----- | 34,847 | 104,834 |
| Increase (Decrease) in Accrued Employee Benefits ----- | 1,037 | 1,975 |
| Increase (Decrease) in Accrued Interest Payable----- | (3,004) | 7,570 |
| Increase (Decrease) in Accrued Taxes Payable ----- | 165 | (1,412) |
| Increase (Decrease) in Consumer Deposits----- | <u>1,041</u> | <u>-0-</u> |
| CASH PROVIDED BY OPERATIONS | <u>\$ 367,962</u> | <u>\$ 336,078</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Principal Paid on Bonds & Notes----- | \$ (140,000) | \$ (63,529) |
| Acquisition of Fixed Assets ----- | (343,145) | (445,799) |
| Capital Notes Issued ----- | <u>-0-</u> | <u>1,800,000</u> |
| CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>\$ (483,145)</u> | <u>\$ 1,290,672</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest Income ----- | <u>\$ 27,654</u> | <u>\$ 7,132</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | \$ (87,529) | \$ 1,633,882 |
| CASH AND CASH EQUIVALENTS - BEGINNING | <u>1,343,191</u> | <u>473,167</u> |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 1,255,662</u> | <u>\$ 2,107,049</u> |
| Interest paid for year | <u>\$ 75,989</u> | <u>\$ 39,414</u> |

See Accompanying Notes to Financial Statements.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY - The financial statements include the enterprise funds of Electric and Water, which provide services to the residents of the City of Milford. The Milford Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, the Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's report does not include financial information concerning the Utilities. The Milford Municipal Utilities has no component units as set forth by GASB No. 14.

FUND ACCOUNTING - The accounts of the Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Milford Municipal Utilities maintains its records and prepares its financial statements on the accrual basis of accounting.

INVENTORIES - Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis.

ACCOUNTS RECEIVABLE - Accounts receivable and revenue are recorded at the time that service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. Accounts are reviewed annually; accounts considered uncollectable are written off at that time.

BUDGETS AND BUDGETARY ACCOUNTING - Starting with the fiscal year ending June 30, 1991, the Board of Trustees submits an annual budget prepared on an accrual basis independent from the City of Milford.

CASH AND CASH EQUIVALENTS - For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all currency on hand, demand deposits with banks or other financial institutions, certificates of deposits with an original maturity of six months or less, and other accounts that have the general characteristics of demand deposits in that the Utilities may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

OTHER ASSETS - CTS acquisition costs are being amortized on a straight-line basis over 25 years, and is presented at its net value. Loan costs related to issued capital notes are being amortized on a straight line basis over 15 years, and is presented at its net value.

CURRENT LIABILITIES - All current liabilities are accrued through the end of the fiscal year. The accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

RESTRICTED FUNDS - Funds restricted by bond agreement or trustee action are presented as restricted assets and restricted retained earnings in the financial statements.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INCOME TAXES - Milford Municipal Utilities is exempt from federal and state income taxes.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT:

Property, Plant and Equipment are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized. The Utility accounted for existing infrastructure through the use of an independent engineer's report.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|---------------------------|-------|
| Building and Plant----- | 20-50 |
| Equipment ----- | 7-20 |
| Distribution System ----- | 20-67 |

A summary of changes in fixed assets is as follows:

| -----WATER UTILITY PLANT----- | | | | |
|--|--|-------------------|-------------------|---|
| | <u>BALANCE</u> <u>AT JULY 1,</u> <u>2004</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE</u> <u>AT JUNE 30,</u> <u>2005</u> |
| PRODUCTION PLANT: | | | | |
| Land----- | \$ 37,855 | \$ -0- | \$ -0- | \$ 37,855 |
| Buildings----- | 1,819,241 | -0- | -0- | 1,819,241 |
| Intakes----- | 79,733 | -0- | -0- | 79,733 |
| Equipment----- | 897,343 | 175,902 | -0- | 1,073,245 |
| Mains----- | <u>1,035,986</u> | <u>60,819</u> | <u>-0-</u> | <u>1,096,805</u> |
| | <u>\$ 3,870,158</u> | <u>\$ 236,721</u> | <u>\$ -0-</u> | <u>\$ 4,106,879</u> |
| STORAGE AND DISTRIBUTION PLANT: | | | | |
| Towers----- | \$ 251,067 | \$ -0- | \$ -0- | \$ 251,067 |
| Mains, Hydrants and Service----- | 219,113 | -0- | -0- | 219,113 |
| Meters----- | <u>157,449</u> | <u>18,290</u> | <u>-0-</u> | <u>175,789</u> |
| | <u>\$ 627,679</u> | <u>\$ 18,290</u> | <u>\$ -0-</u> | <u>\$ 645,969</u> |
| GENERAL PLANT: | | | | |
| Tools and Work Equipment----- | \$ 16,939 | \$ -0- | \$ -0- | \$ 16,939 |
| CONSTRUCTION IN PROGRESS ----- | <u>\$ 134,421</u> | <u>\$ 325,209</u> | <u>\$ 134,421</u> | <u>\$ 325,209</u> |
| | <u>\$ 4,649,197</u> | <u>\$ 580,220</u> | <u>\$ 134,421</u> | <u>\$ 5,094,996</u> |
| -----ELECTRIC PLANT----- | | | | |
| | <u>BALANCE</u> <u>AT JULY 1,</u> <u>2004</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE</u> <u>AT JUNE 30,</u> <u>2005</u> |
| PRODUCTION: | | | | |
| Land----- | \$ 72,365 | \$ -0- | \$ -0- | \$ 72,365 |
| Building----- | 389,641 | 1,601 | -0- | 391,242 |
| Machinery and Equipment----- | 572,236 | 26,230 | -0- | 598,466 |
| Accessory Electric Equipment----- | <u>764,155</u> | <u>-0-</u> | <u>-0-</u> | <u>764,155</u> |
| | <u>\$ 1,798,397</u> | <u>\$ 27,831</u> | <u>\$ -0-</u> | <u>\$ 1,826,228</u> |
| Neal #4----- | 1,244,844 | 9,227 | -0- | 1,254,071 |
| Common Transmission System----- | <u>1,161,614</u> | <u>130,954</u> | <u>-0-</u> | <u>1,292,568</u> |
| | <u>\$ 4,204,855</u> | <u>\$ 168,012</u> | <u>\$ -0-</u> | <u>\$ 4,372,867</u> |
| DISTRIBUTION PLANT: | | | | |
| Distribution Facilities----- | \$ 4,645,901 | \$ 144,162 | \$ -0- | \$ 4,790,063 |
| Street Lights & Signal Systems----- | <u>151,880</u> | <u>30,971</u> | <u>-0-</u> | <u>182,851</u> |
| | <u>\$ 4,797,781</u> | <u>\$ 175,133</u> | <u>\$ -0-</u> | <u>\$ 4,972,914</u> |
| GENERAL PLANT: | | | | |
| Transportation Equipment----- | \$ 281,248 | \$ -0- | \$ -0- | \$ 281,248 |
| Other Equipment----- | <u>120,498</u> | <u>-0-</u> | <u>-0-</u> | <u>120,498</u> |
| | <u>\$ 401,746</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 401,746</u> |
| | <u>\$ 9,404,382</u> | <u>\$ 343,145</u> | <u>\$ -0-</u> | <u>\$ 9,747,527</u> |

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 3 - LONG-TERM DEBT:

ELECTRIC FUND:

During the year ended June 30, 1997, the Utility issued electric revenue notes in the amount of \$2,200,000 for the construction costs related to an addition to the power plant and improvements to the generation facilities. The notes bear interest of 4.40% - 5.65% and mature annually from February 1, 1999 to February 1, 2012.

The resolution providing for the issuance of the revenue notes provides for the creation of a Reserve Fund, into which shall be set aside an amount equal to the amount of annual principal and interest coming due on those notes.

A summary of the Electric Fund's June 30, 2005 long-term indebtedness is as follows:

| <u>DUE YEAR</u> <u>ENDING</u> <u>JUNE 30,</u> | <u>AMOUNT</u> |
|---|---------------------|
| 2006 | \$ 150,000 |
| 2007 | 155,000 |
| 2008 | 165,000 |
| 2009 | 175,000 |
| 2010 | 185,000 |
| Thereafter | <u>400,000</u> |
| TOTAL | <u>\$ 1,230,000</u> |

WATER FUND:

On June 24, 2003, the Utility issued a Water Revenue Refinancing Capital Loan Note – Series 2004, in the amount of \$1,200,000.

The note bears interest at the rate of 3.5% per annum and mature on August 1, 2004 through July 1, 2018. The monthly payment required is \$8,579, including interest.

The resolution providing for the issuance of the revenue notes provides for the creation of the following restricted asset accounts:

- A) Water Revenue Bond Sinking Fund into which there shall be set aside an amount sufficient to make the following month's payment.
- B) Reserve Fund into which there shall be set aside each month \$2,145 until \$102,948 has been accumulated and shall be used for meeting any deficiencies in the Sinking Fund.

On May 25, 2005 the Utility issued Water Revenue Capital Loan Notes in the amount of \$1,800,000. The notes bear interest at 4.25% and mature from December, 2005 to June, 2010 and require monthly payments of \$13,555. The resolution providing for the issuance of the Revenue Notes provides for the creation of a Sinking Fund for the monthly payment of principal and interest.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 3 - LONG-TERM DEBT (CONTINUED):

WATER FUND (Continued):

A summary of the Water Funds long-term indebtedness follows:

| <u>DUE YEAR</u> <u>ENDING</u> <u>JUNE 30,</u> | <u>2003</u> <u>WATER</u> <u>REVENUE NOTE</u> | <u>2005</u> <u>WATER</u> <u>REVENUE NOTE</u> | <u>TOTAL</u> |
|---|--|--|---------------------|
| 2006----- | \$ 66,211 | \$ 86,700 | \$ 152,911 |
| 2007----- | 68,567 | 91,618 | 160,185 |
| 2008----- | 70,719 | 95,495 | 166,214 |
| 2009----- | 73,528 | 99,632 | 173,160 |
| 2010----- | 76,171 | 1,426,555 | 1,502,726 |
| Thereafter ----- | <u>726,129</u> | <u>-0-</u> | <u>726,129</u> |
| | <u>\$ 1,081,325</u> | <u>\$ 1,800,000</u> | <u>\$ 2,881,325</u> |

A summary of the changes in long-term debt for the year ended June 30, 2005 are as follows:

| <u>DESCRIPTION</u> | <u>ORIGINAL</u> <u>AMOUNT</u> | <u>INTEREST</u> <u>RATE</u> | <u>DUE</u> <u>DATE</u> | <u>BALANCE</u> <u>7/1/04</u> | <u>ISSUED</u> | <u>RETIRED</u> | <u>BALANCE</u> <u>6/30/05</u> |
|------------------------|----------------------------------|--------------------------------|---------------------------|---------------------------------|---------------------|-------------------|----------------------------------|
| Water Revenue Notes | \$ 1,200,000 | 3.50% | 2004-2018 | \$ 1,144,854 | -0- | \$ 63,529 | \$ 1,081,325 |
| Water Revenue Notes | \$ 1,800,000 | 4.25% | 2005-2010 | -0- | 1,800,000 | -0- | 1,800,000 |
| Electric Revenue Notes | \$ 2,200,000 | 4.4-5.65% | 1999-2012 | <u>1,370,000</u> | <u>-0-</u> | <u>140,000</u> | <u>1,230,000</u> |
| TOTAL | | | | <u>\$ 2,514,854</u> | <u>\$ 1,800,000</u> | <u>\$ 203,529</u> | <u>\$ 4,111,325</u> |

NOTE 4 - PENSION AND RETIREMENT BENEFITS:

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$18,741, \$17,948, and \$17,234, respectively, equal to the required contributions for each year.

NOTE 5 - DEPOSITS AND INVESTMENTS:

The Utilities deposits in banks at June 30, 2005, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected purchase agreement; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments at June 30, 2005.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

**NOTE 6 - RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT
OF CASH FLOWS TO THE BALANCE SHEET:**

| | <u>BEGINNING</u> <u>OF YEAR</u> | <u>INCREASE</u> <u>(DECREASE)</u> | <u>END</u> <u>OF YEAR</u> |
|-------------------------------|------------------------------------|--------------------------------------|------------------------------|
| <u>ELECTRIC FUND:</u> | | | |
| Cash on Hand and in Bank----- | \$ 42,761 | \$ 29,496 | \$ 72,257 |
| Consumer Deposit Fund----- | 42,600 | 1,809 | 44,409 |
| Savings Accounts----- | 552,551 | (59,391) | 493,160 |
| Time CD's ----- | 455,000 | 5,000 | 460,000 |
| CTS - Improvement Fund----- | <u>250,279</u> | <u>(64,443)</u> | <u>185,836</u> |
| | <u>\$ 1,343,191</u> | <u>\$ (87,529)</u> | <u>\$ 1,255,662</u> |
| <u>WATER FUND:</u> | | | |
| Cash in Bank----- | \$ 93,138 | \$ (47,260) | \$ 45,878 |
| Savings----- | 277,029 | 266,142 | 543,171 |
| Time CD's ----- | <u>103,000</u> | <u>1,415,000</u> | <u>1,518,000</u> |
| | <u>\$ 473,167</u> | <u>\$ 1,633,882</u> | <u>\$ 2,107,049</u> |

NOTE 7 - COMPENSATED ABSENCES:

The Utilities' employees accumulate vacation, sick leave, and "comp time" hours for subsequent use. The employees receive payment for accumulated vacation and "comp time" hours upon termination, retirement, or death, and therefore the appropriate liability has been recorded on the Utilities' records.

The employees are not compensated for accumulated sick leave hours upon termination, retirement, or death.

NOTE 8 - INTEREST EXPENSE:

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. The Utilities had no capitalized interest during the year.

NOTE 9 - RISK MANAGEMENT

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 - RELATED PARTY TRANSACTIONS:

The Utilities had business transactions between the Utilities and Utilities' officials totaling \$594 during the year ended June 30, 2005.

NOTE 11 - BUDGET:

During the year ended June 30, 2005 the Utilities exceeded its budget by \$4,936.

REQUIRED SUPPLEMENTAL INFORMATION

MILFORD MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

| | ACTUAL | BUDGET | VARIANCE FAVORABLE (UNFAVORABLE) |
|-----------------------------|---------------------|---------------------|---|
| REVENUE: | | | |
| Charges for Services ----- | \$ 2,910,110 | \$ 3,167,320 | \$ (257,210) |
| Non-Operating ----- | <u>42,256</u> | <u>44,747</u> | <u>(2,491)</u> |
| TOTAL REVENUE | <u>\$ 2,952,366</u> | <u>\$ 3,212,067</u> | <u>\$ (259,701)</u> |
| EXPENSES: | | | |
| Electric | \$ 2,170,108 | \$ 2,158,667 | \$ (11,441) |
| Water | <u>541,198</u> | <u>547,703</u> | <u>6,505</u> |
| TOTAL EXPENSES | <u>\$ 2,711,306</u> | <u>\$ 2,706,370</u> | <u>\$ (4,936)</u> |
| NET INCOME | \$ 241,060 | \$ 505,697 | <u>\$ (264,637)</u> |
| RETAINED EARNINGS - 7/1/04 | <u>6,363,811</u> | <u>6,363,811</u> | |
| RETAINED EARNINGS - 6/30/05 | <u>\$ 6,604,871</u> | <u>\$ 6,869,508</u> | |

MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
JUNE 30, 2005

In accordance with the Code of Iowa, the Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

OTHER SUPPLEMENTAL INFORMATION

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF OPERATING INCOME
FOR THE YEAR ENDED JUNE 30, 2005

| | ELECTRIC FUND | WATER FUND |
|----------------------------|--------------------------|-----------------------|
| OPERATING INCOME: | | |
| Utility Sales: | | |
| Residential----- | \$ 841,139 | \$ 319,619 |
| Commercial ----- | 340,912 | 316,913 |
| Demand ----- | 677,815 | -0- |
| Tank Lot Water Sales----- | -0- | 7,051 |
| Public Authorities ----- | 55,332 | -0- |
| Water Department----- | 26,623 | -0- |
| Neal # 4 Credits ----- | 99,953 | -0- |
| Diesel Credits----- | 185,042 | -0- |
| | <u>\$ 2,226,816</u> | <u>\$ 643,583</u> |
| Other: | | |
| Consumer Penalties----- | \$ 3,969 | \$ 1,329 |
| Miscellaneous Income----- | 16,433 | 7,771 |
| Meter Sales----- | -0- | 10,209 |
| | <u>\$ 20,402</u> | <u>\$ 19,309</u> |
| TOTAL OPERATING INCOME | <u>\$ 2,247,218</u> | <u>\$ 662,892</u> |

See Accompanying Independent Auditor's Report.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

| | ELECTRIC FUND | WATER FUND |
|---|--------------------------|-----------------------|
| DIRECT COSTS: | | |
| Distribution Maintenance ----- | \$ 29,825 | \$ 12,776 |
| Equipment Maintenance ----- | 9,294 | 9,012 |
| Lab ----- | -0- | 9,973 |
| Miscellaneous Direct Costs ----- | 4,261 | -0- |
| Neal # 4 Charges - Coal, Oil, Power Generator ----- | 219,935 | -0- |
| Plant Maintenance ----- | 3,684 | 458 |
| Product - Chlorine & Fluoride ----- | -0- | 35,590 |
| Purchased Power ----- | -0- | 26,623 |
| Purchased Power - NIMECA ----- | 795,913 | -0- |
| Purchased Power - WAPA ----- | 190,490 | -0- |
| Sewer Charges ----- | -0- | 7,095 |
| Wheeling ----- | 16,851 | -0- |
| | <u>\$ 1,270,253</u> | <u>\$ 101,527</u> |
| OPERATING EXPENSES: | | |
| Salaries ----- | \$ 216,108 | \$ 109,822 |
| Small Tools & Supplies ----- | 2,865 | 435 |
| Sub-Contractor ----- | 14,132 | 18,699 |
| Vehicle Expense ----- | 23,143 | 4,191 |
| Miscellaneous Operating Expenses ----- | 7,382 | 2,346 |
| | <u>\$ 263,630</u> | <u>\$ 135,493</u> |
| ADMINISTRATIVE EXPENSES: | | |
| Amortization ----- | \$ 9,264 | \$ -0- |
| Bad Debts ----- | 2,613 | 624 |
| Building Maintenance - Office ----- | 10,511 | 2,377 |
| Community Development ----- | 3,967 | 7,176 |
| Computer Supplies & Programs ----- | 3,285 | 2,721 |
| Depreciation ----- | 267,818 | 124,111 |
| Director Fees ----- | 2,850 | 2,800 |
| Dues & Subscriptions ----- | 4,768 | 1,460 |
| Education & Safety ----- | 5,229 | 583 |
| Employee Benefits ----- | 38,364 | 20,891 |
| Engineer Fees ----- | 18,383 | 2,622 |
| Insurance - General ----- | 32,692 | 16,972 |
| Interest - Notes ----- | 71,911 | 46,984 |
| Interest - Other ----- | 1,074 | -0- |
| Laundry & Uniforms ----- | 2,063 | 937 |
| Legal & Professional ----- | 11,248 | 13,535 |
| Maintenance - Office Equipment ----- | 188 | 76 |
| Miscellaneous ----- | 1,830 | 90 |
| Office Supplies ----- | 7,092 | 6,195 |
| Payroll Taxes - FICA & IPERS ----- | 28,224 | 14,698 |
| Postage ----- | 5,552 | 5,119 |
| Property Taxes ----- | 16,085 | -0- |
| Rebates ----- | 5,945 | -0- |
| Supplies ----- | 612 | 249 |
| Sales Tax Paid ----- | 78,862 | 31,317 |
| Telephone ----- | 4,139 | 1,871 |
| Travel ----- | 1,660 | 463 |
| Utilities & Sanitation ----- | 268 | 137 |
| Inventory Adjustment ----- | (272) | 170 |
| | <u>\$ 636,225</u> | <u>\$ 304,178</u> |
| | <u>\$ 2,170,108</u> | <u>\$ 541,198</u> |

See Accompanying Independent Auditor's Report.

MILFORD MUNICIPAL UTILITIES
COMPARATIVE INFORMATION - ELECTRIC FUND
FOR THE YEARS ENDED JUNE 30,

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|-------------------------|-------------------------|-------------------------|
| Total Current Assets ----- | \$ 1,083,014 | \$ 1,181,194 | \$ 1,309,203 |
| Book Value of Fixed Assets ----- | 4,713,179 | 4,637,892 | 4,511,159 |
| Other Assets ----- | 86,634 | 95,898 | 105,162 |
| Total Restricted Funds ----- | <u>761,812</u> | <u>728,526</u> | <u>807,075</u> |
| TOTAL ASSETS | <u>\$ 6,644,639</u> | <u>\$ 6,643,510</u> | <u>\$ 6,732,599</u> |
| Total Current Liabilities ----- | \$ 465,525 | \$ 421,439 | \$ 457,672 |
| Total Long-Term Debt ----- | 1,080,000 | 1,230,000 | 1,370,000 |
| Total Fund Equity ----- | <u>5,099,114</u> | <u>4,992,071</u> | <u>4,904,927</u> |
| TOTAL LIABILITIES AND EQUITY | <u>\$ 6,644,639</u> | <u>\$ 6,643,510</u> | <u>\$ 6,732,599</u> |
| OPERATING INCOME: | | | |
| Utility Sales: | | | |
| Residential ----- | \$ 841,139 | \$ 768,657 | \$ 759,757 |
| Commercial and Demand ----- | 1,018,727 | 960,081 | 881,394 |
| Other ----- | <u>387,352</u> | <u>371,601</u> | <u>397,163</u> |
| TOTAL OPERATING INCOME | \$ 2,247,218 | \$ 2,100,339 | \$ 2,038,314 |
| DIRECT COSTS (Schedule Attached) ----- | (1,270,253) | (1,128,520) | (1,005,774) |
| OPERATING EXPENSES (Schedule Attached) ----- | (263,630) | (257,136) | (256,333) |
| ADMINISTRATIVE EXPENSES (Schedule Attached) ----- | <u>(636,225)</u> | <u>(655,035)</u> | <u>(685,121)</u> |
| OPERATING INCOME | \$ 77,110 | \$ 59,648 | \$ 91,086 |
| NON-OPERATING INCOME | <u>29,933</u> | <u>27,496</u> | <u>29,755</u> |
| NET INCOME | <u>\$ 107,043</u> | <u>\$ 87,144</u> | <u>\$ 120,841</u> |

See Accompanying Independent Auditor's Report.

MILFORD MUNICIPAL UTILITIES
COMPARATIVE INFORMATION - ELECTRIC FUND - CONTINUED
FOR THE YEARS ENDED JUNE 30,

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------------------------------|---------------------|---------------------|---------------------|
| DIRECT COSTS: | | | |
| Maintenance----- | \$ 42,803 | \$ 49,560 | \$ 73,185 |
| Neal # 4 - Charges----- | 219,935 | 252,855 | 207,279 |
| Purchased Power----- | 986,403 | 807,411 | 702,995 |
| Wheeling----- | 16,851 | 16,544 | 16,468 |
| Other----- | <u>4,261</u> | <u>2,150</u> | <u>5,847</u> |
| TOTAL DIRECT COSTS | <u>\$ 1,270,253</u> | <u>\$ 1,128,520</u> | <u>\$ 1,005,774</u> |
| OPERATING EXPENSES: | | | |
| Salaries----- | \$ 216,108 | \$ 204,386 | \$ 195,551 |
| Small Tools----- | 2,865 | 3,892 | 5,763 |
| Sub-Contractors----- | 14,132 | 10,186 | 28,022 |
| Vehicle Expense----- | 23,143 | 31,115 | 17,724 |
| Other----- | <u>7,382</u> | <u>7,557</u> | <u>9,273</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 263,630</u> | <u>\$ 257,136</u> | <u>\$ 256,333</u> |
| ADMINISTRATIVE EXPENSES: | | | |
| Advertising----- | \$ -0- | \$ -0- | \$ 45 |
| Bad Debts----- | 2,613 | 1,925 | 2,790 |
| Computer Supplies and Programs----- | 3,285 | 5,886 | 9,397 |
| Depreciation and Amortization----- | 277,082 | 271,044 | 258,763 |
| Director Fees----- | 2,850 | 2,625 | 2,650 |
| Dues and Subscriptions----- | 4,768 | 4,888 | 6,633 |
| Education and Safety----- | 5,229 | 2,474 | 3,045 |
| Employee Benefits----- | 38,364 | 31,963 | 28,210 |
| Engineering Fees----- | 18,383 | 12,490 | -0- |
| Insurance - General----- | 32,692 | 31,343 | 26,151 |
| Interest----- | 72,985 | 79,563 | 86,011 |
| Laundry and Uniforms----- | 2,063 | 1,214 | 1,082 |
| Legal and Professional----- | 11,248 | 21,912 | 13,433 |
| Maintenance----- | 10,699 | 10,907 | 17,703 |
| Office Supplies----- | 7,092 | 8,580 | 1,351 |
| Payroll Taxes----- | 28,224 | 26,838 | 25,728 |
| Postage----- | 5,552 | 6,238 | 4,828 |
| Property Taxes----- | 16,085 | 14,758 | 15,471 |
| Rebates----- | 5,945 | 11,362 | -0- |
| Sales Tax----- | 78,862 | 80,864 | 80,650 |
| Telephone and Utilities----- | 4,407 | 4,786 | 4,083 |
| Travel----- | 1,660 | 2,494 | 2,490 |
| Other----- | 2,442 | 2,091 | 5,136 |
| Community Development----- | 3,967 | 19,059 | 89,471 |
| Inventory Adjustment----- | <u>(272)</u> | <u>(269)</u> | <u>-0-</u> |
| TOTAL ADMINISTRATIVE EXPENSES | <u>\$ 636,225</u> | <u>\$ 655,035</u> | <u>\$ 685,121</u> |

See Accompanying Independent Auditor's Report.

MILFORD MUNICIPAL UTILITIES
COMPARATIVE INFORMATION - WATER FUND
FOR THE YEARS ENDED JUNE 30,

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|----------------------------|----------------------------|----------------------------|
| Total Current Assets----- | \$ 626,243 | \$ 282,518 | \$ 163,423 |
| Book Value of Fixed Assets----- | 3,137,001 | 2,815,313 | 2,764,214 |
| Total Restricted Funds----- | 1,664,355 | 346,313 | 334,228 |
| TOTAL ASSETS | <u>\$ 5,427,599</u> | <u>\$ 3,444,144</u> | <u>\$ 3,261,865</u> |
| | | | |
| Total Current Liabilities----- | \$ 298,651 | \$ 96,711 | \$ 79,337 |
| Total Long-Term Debt----- | 2,728,414 | 1,080,916 | 1,143,480 |
| Total Fund Equity----- | 2,400,534 | 2,266,517 | 2,039,048 |
| TOTAL LIABILITIES AND EQUITY | <u>\$ 5,427,599</u> | <u>\$ 3,444,144</u> | <u>\$ 3,261,865</u> |
| | | | |
| OPERATING INCOME: | | | |
| Utility Sales: | | | |
| Residential----- | \$ 319,619 | \$ 361,956 | \$ 290,584 |
| Commercial----- | 316,913 | 374,414 | 258,873 |
| Tank Lot Water Sales----- | 7,051 | 1,650 | 1,392 |
| Other----- | 19,309 | 18,047 | 11,938 |
| TOTAL OPERATING INCOME | <u>\$ 662,892</u> | <u>\$ 756,067</u> | <u>\$ 562,787</u> |
| | | | |
| DIRECT COSTS (Schedule Attached)----- | (101,527) | (98,155) | (80,859) |
| | | | |
| OPERATING EXPENSES (Schedule Attached)----- | (135,493) | (126,915) | (119,289) |
| | | | |
| ADMINISTRATIVE EXPENSES (Schedule Attached)----- | (304,178) | (307,787) | (310,935) |
| | | | |
| OPERATING INCOME | <u>\$ 121,694</u> | <u>\$ 223,210</u> | <u>\$ 51,704</u> |
| | | | |
| NON-OPERATING INCOME----- | 12,323 | 4,259 | 8,557 |
| | | | |
| NET INCOME | <u>\$ 134,017</u> | <u>\$ 227,469</u> | <u>\$ 60,261</u> |

See Accompanying Independent Auditor's Report.

MILFORD MUNICIPAL UTILITIES
COMPARATIVE INFORMATION - WATER FUND - CONTINUED
FOR THE YEARS ENDED JUNE 30,

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------------------------------|--------------------------|--------------------------|--------------------------|
| DIRECT COSTS: | | | |
| Chlorine & Fluoride ----- | \$ 35,590 | \$ 38,248 | \$ 29,046 |
| Maintenance----- | 22,246 | 11,247 | 13,750 |
| Purchased Power ----- | 26,623 | 28,263 | 18,335 |
| Sewer Charges & Lab----- | <u>17,068</u> | <u>20,397</u> | <u>19,728</u> |
| TOTAL DIRECT COSTS | <u>\$ 101,527</u> | <u>\$ 98,155</u> | <u>\$ 80,859</u> |
| OPERATING EXPENSES: | | | |
| Salaries----- | \$ 109,822 | \$ 107,761 | \$ 103,989 |
| Small Tools ----- | 435 | 891 | 251 |
| Sub-Contractors ----- | 18,699 | 13,401 | 12,745 |
| Vehicle Expense----- | 4,191 | 3,169 | 1,080 |
| Other ----- | <u>2,346</u> | <u>1,693</u> | <u>1,224</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 135,493</u> | <u>\$ 126,915</u> | <u>\$ 119,289</u> |
| ADMINISTRATIVE EXPENSES: | | | |
| Advertising----- | \$ -0- | \$ -0- | \$ 45 |
| Bad Debts----- | 624 | 357 | -0- |
| Community Development ----- | 7,176 | 4,396 | -0- |
| Computer Supplies ----- | 2,721 | 1,187 | 980 |
| Depreciation ----- | 124,111 | 136,716 | 134,573 |
| Director Fees----- | 2,800 | 2,250 | 2,525 |
| Dues and Subscriptions ----- | 1,460 | 1,037 | 1,200 |
| Education and Safety----- | 583 | 751 | 1,224 |
| Employee Benefits ----- | 20,891 | 15,993 | 17,132 |
| Engineering Fees ----- | 2,622 | 15,200 | -0- |
| Insurance - General ----- | 16,972 | 16,604 | 14,274 |
| Interest----- | 46,984 | 41,752 | 66,802 |
| Laundry and Uniforms ----- | 937 | 483 | 794 |
| Legal and Professional ----- | 13,535 | 7,118 | 21,371 |
| Maintenance----- | 2,453 | 2,486 | -0- |
| Office Supplies----- | 6,195 | 5,519 | 344 |
| Payroll Taxes----- | 14,698 | 14,341 | 13,914 |
| Postage----- | 5,119 | 5,136 | 4,324 |
| Sales Tax ----- | 31,317 | 34,212 | 26,537 |
| Telephone and Utilities----- | 2,008 | 1,700 | 1,443 |
| Travel ----- | 463 | 503 | 1,085 |
| Other ----- | <u>509</u> | <u>46</u> | <u>2,368</u> |
| TOTAL ADMINISTRATIVE EXPENSES | <u>\$ 304,178</u> | <u>\$ 307,787</u> | <u>\$ 310,935</u> |

See Accompanying Independent Auditor's Report.

DAVID A. MASKE

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Milford Municipal Utilities
Milford, Iowa

I have audited the financial statements of the Milford Municipal Utilities as of and for the year ended June 30, 2005, and have issued my report thereon dated December 16, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles. I conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Milford Municipal Utilities' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item 05-I-A is a material weakness. Prior year reportable conditions have been resolved except 05-I-A.

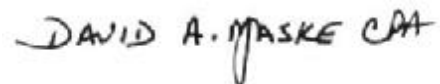
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utilities. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Milford Municipal Utilities during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



DAVID A. MASKE
Certified Public Accountant

December 16, 2005
Spencer, Iowa

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

PART I - FINDINGS RELATED TO FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- 05-I-A Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

RECOMMENDATION - I realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, I recommend the Board maintain its diligence in the review of the financial records.

RESPONSE - We will continue our review.

CONCLUSION - Response accepted.

PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- 05-II-A Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

- 05-II-B Certified Budget - Disbursements during the year ended June 30, 2005, did exceed the amounts budgeted by \$4,936.

RECOMMENDATION - The budget should have been amended in accordance with Chapter 384.18 of Code of Iowa.

RESPONSE - The budget will be amended in the future, if applicable.

CONCLUSION - Response accepted.

- 05-II-C Questionable Disbursements - I noted no expenditures that did not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.

- 05-II-D Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

- 05-II-E Business Transactions - Business transactions between the Utilities and Utilities' officials are detailed as follows:

| <u>NAME, TITLE AND BUSINESS CONNECTION</u> | <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|---|--------------------|---------------|
| James Studer, Trustee Owner - Excel Auto Body Ltd. | Maintenance | \$ 570 |
| Keith Wurtz, Trustee Owner - Milford Pharmacy | Supplies | \$ 24 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Trustees do not appear to represent conflicts of interest, since total transactions with each Trustee did not exceed \$2,500 during the fiscal year.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

- 05-II-F Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions.
- 05-II-G Board Minutes - No transactions were found that I believe should have been approved in the Trustee minutes but were not.
- 05-II-H Revenue Bonds - The Utilities is in compliance with all aspects of the bond resolutions including cash reserves.
- 05-II-I Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities' investment policies.